

WASHINGTON STATE INVESTMENT BOARD

Administrative Committee Meeting Minutes

February 10, 2003

The Administrative Committee met in open session at 2:09 p.m. at the State Investment Board (SIB) office at 2424 Heritage Court S.W., Olympia, Washington.

Committee members present: John Charles, Chair
Charlie Kaminski
George Masten
Mike Murphy

Absent: Lee Ann Prielipp

Others Present: Joe Dear, Executive Director
Sue Hedrick, Executive Assistant
Jeff Lane, Senior Assistant Attorney General

Chair Charles convened the meeting and identified members in attendance.

ADOPTION OF MINUTES – JANUARY 16, 2003

**Mr. Masten moved to adopt the Board minutes of January 16, 2003.
Mr. Murphy seconded the motion.**

The motion passed unanimously.

ECONOMICALLY TARGETED INVESTMENTS (ETI) POLICY DISCUSSION

Mr. Dear described Senate Bill 5192, sponsored by Senators Joe Zarelli and Bob Oke, which would require the WSIB to establish a \$75 million account to invest in Washington technology companies. It would be a single state venture capital fund targeted for in-state companies preferably run by a general partner located within the state. The bill requires the Board to balance maximizing returns at a prudent level of risk with the economic benefits from stimulating growth of high-technology companies in the state.

He also mentioned House Joint Memorial 4011, which requests the WSIB to develop a policy to encourage prudent investment of the private equity funds under its management and care in more Washington firms.

Mr. Dear said that he testified before the Senate Financial Services, Insurance and Housing Committee on SB 5192 and will be doing a presentation before the Senate Economic Development Committee on February 12. He asked Bill Song, the WSIB's fiduciary counsel, to review the bill and write an analysis of it.

A discussion ensued about the Board's investment mandate, the Legislature's intent to change that mandate through legislation, and whether to help improve proposed legislation or leave it alone.

Mr. Dear said that Governor Locke has not requested ETI legislation. He read excerpts from a letter he received from the Governor, requesting that the WSIB "consider policies that would target investments in Washington companies, providing such are consistent with your fiduciary obligations."

Chair Charles suggested they not put too much effort into rewriting SB 5192. Treasurer Murphy suggested it would be more appropriate to have a Board action rather than a Committee action against this legislation.

Chair Charles said he's seen some interest from people in the state other than legislators. He's told the press that the Board is working on drafting a policy, but the trustees have a responsibility to their beneficiaries. There is currently a Board policy, but it was written more in response to the economic downturn in the early 80s. He suggested the Committee look at the draft policy before the next Board meeting and make sure the fiduciary responsibilities are made very clear to the new Board members.

Mr. Dear described three options he has staff working on for an ETI policy. One option would encourage good investments but with no specific targets; another would include venture capital, housing, and things that other states are doing.

Discussion ensued about what other states are doing such as California (CalPERS), New Mexico and Indiana.

Mr. Dear said there could be a policy that would have the Board do a co-investment with a general partner that makes an investment in Washington State. Mr. Kaminski said it would have to be carefully crafted because it could reduce the risk of the general partners. Chair Charles said the Board needs to give a signal to the investment community that we're not against venture capital investments in the state. We should make sure there are avenues for the smaller companies. He added that he personally has a problem with targets.

Mr. Dear noted the Board already has about seven percent of its venture capital investments, \$61 million, invested in Washington State. Mr. Masten agreed that we should encourage the Board's general partners to invest in Washington. He also suggested that it not be limited to venture capital, but include other portfolios such as real estate.

Chair Charles asked that a document be created with bullet points on where the WSIB already invests in the state.

It was agreed that the Committee will meet again on February 20 prior to the Board meeting to review Mr. Dear's draft policy in order to bring it to the Board for review and discussion and

possibly a March or April adoption date. Mr. Dear said he will send the draft policy to the Board members to review before the next committee meeting.

Mr. Dear also mentioned House Bill 1766, which amends the public disclosure law, to read that any commercial information supplied to the Board may be disclosed after two years from when it is supplied. The bill is sponsored by Representatives Glenn Anderson and Brad Benson. Mr. Dear said the bill would shut off the flow of information from the Board's general partners and deter other general partners from considering doing business with the state of Washington. Mr. Dear said he will be meeting with Representative Anderson on February 13, and he will also meet with Representative Kathy Haigh, the committee chair, on it soon. Chair Charles said the Board may want to take some action to empower Joe to be able to speak against it.

Treasurer Murphy asked if there is a Senate companion measure? Mr. Dear replied there is not.

EXECUTIVE DIRECTOR WORK PLAN

Mr. Dear presented the draft work plan he prepared, including the suggestions provided by the Administrative Committee. He also went a step further and converted the plan into the Top Ten Goals for 2003. He handed out the Top Ten Goals to the members and gave them a status report on both the work plan and the goals.

In terms of the first item, Board development, Mr. Dear said that the first governance workshop has been done, and the summer workshop is scheduled for July 31st and Aug 1st. For new Board member education, he suggested trainings be done in the afternoon after Board meetings, and experienced members could then leave to do other things.

Mr. Murphy suggested using the Callan Group since they do training for new members. Chair Charles said that, with the constant change that occurs on the Board, they might want to have a training document electronically that they could review, too. Mr. Kaminski mentioned an Association for Investment Management and Research (AIMR) book that's written for trustees.

Under the second item, staff development, Mr. Dear said he will add an assistant investment officer in Fixed Income and will have a review done of the Fixed Income portfolio in response to members' questions about the portfolio.

He said the all-staff workout session took place on January 17th. Five teams came up with ideas on how staff could do their work better. Some things were small, but important to staff. There will be more substantive items tackled such as closing the books on the Commingled Trust Funds.

Mr. Dear said they are also looking at changing the process for preparing for Board meetings, with the possibility of sending information to the members electronically, rather than producing everything on paper and doing hand deliveries.

Mr. Murphy commented that he was pleased to receive the Audit Committee minutes two days after the meeting. It was much easier to review the minutes when the meeting had just taken

place. Mr. Masten said that, in the past, he had also asked for the same thing to be done with the Private Markets Committee; receiving the minutes sooner than later would be better. Several members mentioned the difficulty they have had with the cumbersome travel regulations and suggested that streamlining opportunities be explored.

Mr. Dear said the staff will be working on “breakthrough” projects and defined what that means. He said they have created a matrix to track all of the suggestions. Staff response to the changes from the workout session has been terrific. Mr. Dear said the workshop on guiding principles was requested by staff.

A discussion ensued about staff morale, reducing fear and distrust, promoting efficiency and breaking down the barriers between the investment side and the administrative sides of the agency. Mr. Dear talked about his plans for recruiting for open positions and creating a strategic information technology plan.

Chair Charles asked if there were any comments.

Mr. Kaminski suggested that perhaps the Board members could be involved in some way to provide recognition in celebrating wins with the staff. Mr. Dear agreed and said he might ask staff to stand up at Board meetings to be recognized.

PUBLIC DISCLOSURE PROCEDURES

Mr. Dear gave an update on public disclosure requests. A discussion ensued on whose responsibility it is to determine what is or is not disclosable under the public disclosure law. Mr. Murphy said he believes one must liberally construe what is public and narrowly construe what is exempt. Information must be disclosed unless it can be proven it would cause a loss.

Mr. Lane mentioned there is another state law, the Uniform Trade Secrets Act (Chapter 19.108 RCW), that applies to disclosing information.

Chair Charles agreed with Mr. Murphy’s suggestion that confidential information be clearly marked as such when distributed to the Board. Mr. Masten said we should adhere to the law and adhere to our contracts. If it falls under the law, we don’t release. If it doesn’t fall under the law, we release it. Mr. Murphy said that it is imperative for the Board to determine by clear policy what is public and what is not, and never permit the impression that any other party is making such determinations for the Board.

There being no further business to come before the committee, the meeting adjourned at 4:40 p.m.